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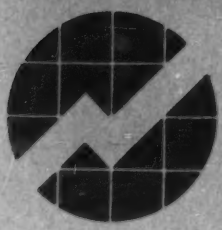

KENT ECONOMIC
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KEDI ECONOMIC SURVEY

November 1989

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SOURCES:

U.S.Department of Commerce second estimate of 1989:3, National Income and Product data, November 29, 1989.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, November 1989.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

The October IIP and Capacity Utilization in no way indicate future trends, as some doomsayers attempt to interpret.

Prices

The October CPI rise of .2% and the PPI rise of .4% have, again, shown that inflation is well contained.

Employment & Labor

October's unemployment rate stood at the same level as in September indicating continuous strong demand for labor.

Housing

Housing starts in October bounced back by 12% from September's low indicating that the bottom of the housing market is over.

Automobiles

Early November sales of US-made cars plunged 23.1% indicating that the next 3-4 months in Detroit are going to be tough.

Budgets

It is anticipated that Congress and the Administration will work out a plan to avoid painful shortages in budget funds.

Income

Forecast of corporate after tax profits show a continuously sluggish growth through the first half of 1990.

Money & Credit

Modest increases in M1 and M2 are commensurate with the moderate growth of the economy.

Interest Rates, Yields & Securities Prices

Small drops in interest rates through 1989, gradual declines throughout 1990 and reversion of trend in 1991 is forecast.

O.02 ASSUMPTIONS

		Last Update
1.	In 1989, the weighted price of oil will increase slightly as compared to 1988. It will continue increasing in the 1990-1991 period.	July 1989
2.	Tightening of monetary and credit policies in the first half of 1989, is expected to be followed by some relaxation in the second half of 1989 and throughout 1990.	September 1989
3.	In 1990 and 1991 crops in most of the main producing countries are anticipated.	October 1988
4.	Foreign trade with China and the USSR will expand in 1989 and following years	June 1989
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.0%; Italy 2.1% Great Britain 2.1%; France 2.0%; Japan 3.1%; Canada 2.6%	September 1987
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

O.03 FORECAST HIGHLIGHTS

*	Table O.00 on page 3 shows forecast data of selected indicators of the November 1989 KEDI forecast.	
*	In 1989 solid growth is expected. It will slow down a bit in the second half of 1989 and resume the upward trend afterward.	June 1989
*	The upward trend will continue throughout 1990-1992.	January 1987
*	Forecast data for 1989-1992 do not point to to recession or major downturn.	January 1987
*	In 1990 interest rates will be declining slightly.	June 1989
*	Federal budget deficits will keep declining in in 1989 and the following years.	January 1987
*	The 1989 export-import gap will start closing to a more acceptable level.	January 1987

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1989, 1990 and 1991 are on pages indicated below.

Indicator	Unit	1988	1992	1993	1994
Gross national	bil. 82$	4024.4	4487.7	4608.9	4728.7
product, p. 5	% change	3.9	3.0	2.7	2.6
Index of indust.	1977=100	137.2	153.1	158.1	163.5
prod., p. 5	% change	5.7	2.5	3.3	3.4
Capacity	%	83.6	83.3	82.0	81.6
utiliz., p. 5	% change	1.1	.2	-1.6	-.5
Unemployment	%	5.5	5.3	5.5	5.4
rate, p. 5	% change	-11.3	.2	-1.2	-1.1
Private housing	mil.units	1.5	1.7	1.7	1.8
starts, p. 5	% change	-8.2	4.1	-1.5	3.8
Car sales,	mil.units	10.6	11.3	11.6	12.0
p. 5	% change	3.2	3.1	2.8	4.0
Implicit GNP	1982=100	121.3	142.8	148.0	153.4
price def.,p.11	% change	3.4	3.5	3.6	3.7
Consumer Price	1967=100	118.3	139.4	144.2	149.3
Index, p. 11	% change	4.1	3.6	3.4	3.6
Prod.Price Index	1967=100	108.2	129.9	135.8	140.9
(fin.goods),p.11	% change	2.7	4.3	4.5	3.8
Federal Deficit	bil. $	-133.5	-69.9	-59.9	-53.8
p. 21	% change	-15.4	-17.5	-14.3	-10.2
Personal Income	bil. $	4064.5	5567.8	5952.0	6392.4
p. 23	% change	7.5	7.6	6.9	7.4
Prime Rate	%	9.4	9.8	10.5	11.3
p. 27	% change	14.4	-2.0	7.5	8.0
Mortgage Rate	%	9.1	9.9	9.6	9.8
p. 27	% change	1.2	6.0	-2.7	1.8
Currency+demand	bil. $	776.7	872.3	926.4	982.9
deposits , p. 25	% change	4.4	5.5	6.2	6.1
Commercial+ind.	bil. $	556.0	571.6	588.1	600.5
loans, p. 25	% change	5.3	2.8	2.9	2.1
Raw steel	mil.sh.tons	92.6	94.1	95.1	94.9
production	% change	3.4	-.9	1.1	-.2
Electric power	mil.kw-hr	2762	3032.4	3144.6	3270.4
production	% change	4.9	3.4	3.7	4.0
Bituminous coal	mil.sh.tons	936	986	998.8	1013.8
production	% change	1.8	1.1	1.3	1.5
Crude oil	avg. daily bbl.	3013	3142	3176.9	3218.2
output	% change	-.2	2.0	1.1	1.3
Retail sales	bil. $	1613.4	2216.3	2369.2	2542.2
p. 7	% change	6.8	7.2	6.9	7.3

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES
1.11 REAL GROWTH

See Table 1.11
Page 5

1989 FORECAST DATA

Percent Change from October 1989 Forecast

+	.19%	Unemployment
-	.02%	GNP
-	.09%	Index Indus. Prod.
-	.12%	Capacity Util.
-	.71%	Autos
-	3.34%	Private Housing Starts

RECENTLY RELEASED DATA ON THE OCTOBER INDEX OF INDUSTRIAL PRODUCTION AND CAPACITY UTILIZATION ARE CONSIDERED HERE JUST TEMPORARY ABERRATIONS AND IN NO WAY INDICATE FUTURE TRENDS, AS SOME DOOMSAYERS ATTEMPT TO INTERPRET.

The October .7% decline in the IIP largely reflected the effects of strike in the aircraft and parts industry and effects of earthquake in California. Excluding these, the October IIP would stay approximately at the September level, and the capacity utilization rate would drop only slightly.

Data on the economy for October confirm the expected slow down, but healthy and moderate overall pace:

* October manufacturers' orders held steady compared to Septembers orders.
* September construction spending remained unchanged after the August strike.
* September exports rose by $500 mil. to $31.1 bil.
* The October unemployment rate remained at the September low.
* Housing starts in October increased by 6% compared to September
* Help wanted advertising in October declined only marginally.
* October retail sales, excluding cars, increased from September.
* October CPI rose by .2% and PPI by .4% only.

The major weaknesses appear in the automobile and oil extraction industries--the slump in cars output is expected to last three-four months and the decline in oil industry is considered long-lasting. Neither is regarded as causing significant obstacles for the growth of the economy.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod.	Unem-ploy ment	Capacity util'n rate	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1988*	4024.4	137.2	5.50	83.6	1.488	10.6
1989:1*	4106.8	141.0	5.17	84.3	1.518	9.9
2*	4132.5	141.7	5.27	84.4	1.383	10.3
3	4160.2 P	142.2	5.32	83.9	1.387	11.0
4	4163.0	141.8	5.36	83.4	1.511	10.4
YEAR	4140.6	141.7	5.28	84.0	1.4	10.4
% change from '88	2.9	3.3	-4.0	.5	-2.6	-1.9
1990:1	4184.3	142.4	5.32	83.3	1.320	10.2
2	4226.7	143.2	5.34	83.4	1.520	10.4
3	4255.7	145.3	5.33	83.5	1.576	10.9
4	4298.9	146.8	5.32	83.2	1.585	10.9
YEAR	4241.4	144.4	5.33	83.3	1.500	10.6
% change from '89	2.4	1.9	.9	-.8	3.5	1.9
1991:1	4322.3	147.6	5.28	83.3	1.538	10.8
2	4345.1	148.3	5.22	83.0	1.698	10.9
3	4370.1	149.4	5.20	83.1	1.769	11.2
4	4390.6	152.0	5.26	83.2	1.691	10.8
YEAR	4357.0	149.3	5.24	83.2	1.674	10.9
% change from '90	2.7	3.4	-1.6	-.2	11.6	3.1

*Historical data.
R = Revised. P = Preliminary.

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1989 FORECAST DATA

Percent Change from October 1989 Forecast

- .07%	Pers. Con. Expend. Services
- .10%	Pers. Con. Expend. Nondurables
- .14%	Retail Sales Nondurables
- .16%	Retail Sales Total
- .20%	Retail Sales Durables
- .20%	Pers. Cons. Expend. Durables

IN OCTOBER, RETAIL SALES WERE DOWN SLIGHTLY BY 1% WHEN COMPARED TO THE SEPTEMBER OUTCOME.

This was held back by the sluggish automobile market, the first decline in eight months. Excluding the automobile category, retail sales edged up .2%, sales of building materials rose by .9%, furniture and other home furnishings increasing by .3%, and nondurables by .1%, especially department stores, grocery, apparel and drug stores.

Forecast data for the rest of this year show further drops in November and December automotive sales, strong gains in all categories of all nondurables, and building materials and furniture and fixtures.

The outlook for the 1990 retail consumer sales is bright: sales of motor vehicles and parts are expected to increase by 4%, building materials by 6%, and other durables by 5%. The nondurables segment is expected to gain by 7.3%.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	*--Personal Cons. Expend.-**			------Retail Sales-------*		
INDICATOR	Durables	Nondur-ables	Services	Total	Durables	Nondur-ables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1988*	455.2	1052.3	1727.6	1629.2	628.5	1000.6
1989:1*	467.4	1078.4	1778.2	1685.4	638.6	1007.8
2*	471.0	1121.5	1851.6	1724.2	652.7	1071.5
3	488.5P	1133.7P	1891.0P	1742.1P	657.1P	1085.0P
4	491.7	1150.0	1898.0	1788.9	684.3	1104.6
YEAR	479.6	1120.9	1854.7	1735.2	658.2	1067.2
% change from '88	5.4	6.5	7.4	6.5	4.7	6.7
1990:1	501.2	1176.6	1916.0	1820.1	709.1	1111.0
2	510.7	1208.5	1959.2	1854.3	718.7	1135.6
3	516.4	1229.1	2016.4	1881.2	728.0	1153.2
4	530.7	1247.0	2143.9	1956.8	734.7	1222.1
YEAR	514.8	1215.3	2008.9	1878.1	722.6	1155.5
% change from '89	7.3	8.4	8.3	8.2	9.8	8.3
1991:1	547.3	1265.8	2152.2	2001.0	749.6	1251.4
2	560.2	1291.2	2059.9	2054.0	767.4	1286.6
3	578.0	1320.5	2191.8	2081.2	798.3	1282.9
4	590.1	1339.5	2214.7	2133.5	814.0	1319.5
YEAR	568.9	1304.2	2154.7	2067.4	782.3	1285.1
% change from '90	10.5	7.3	7.3	10.1	8.3	11.2

* Historical data. R = Revised. P = Preliminary.

1.13 REAL GNP

See Table 1.13
Page 9

1989
FORECAST
DATA

Percent Change from October 1989 Forecast	
+11.52%	Gross Private Dom. Inv.
+ .28%	Net Exports
+ .02%	State Local Purch.
- .02%	GNP
- 1.83%	Pers. Cons. Expend.
- 7.22%	Federal Govt. Purch.

THE SECOND REVISION OF 1989:3 GNP AND COMPONENTS DATA HAS NOT CHANGED SIGNIFICANTLY THE DATA OF THE FIRST RELEASE. THE MAIN DIFFERENCES ARE IN NET EXPORTS AND PERSONAL CONSUMPTION EXPENDITURES.

Forecast data of GNP for 1989:4 has been changed slightly downward when compared to the October forecast mainly due to the lower figure for expected car sales in the Personal Consumption Expenditures component. It is not expected, that the slump in car sales will last longer, and will be a bit deeper than previously forecasted.

The new forecast for the aggregate of GNP show a slightly higher rate of growth in 1990 while the expected rate of growth for 1991 has been reduced.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1988*	4024.4	2598.4	715.8	-74.9	328.9	456.2
1989:1*	4106.8	2641.0	721.1	-55.0	335.5	464.2
2*	4132.5	2653.7	719.8	-51.2	343.6	466.7
3	4160.2P	2694.1P	723.7P	-63.6P	336.6P	469.4P
4	4163.0	2688.6	738.6	-72.8	346.7	471.9
YEAR	4140.6	2666.8	725.8	-60.6	340.6	468.0
% change from '88	2.9	2.6	1.4	-19.0	3.6	2.6
1990:1	4184.3	2687.4	739.3	-64.6	348.6	473.6
2	4226.7	2723.4	741.2	-68.1	352.1	478.1
3	4255.7	2738.8	743.7	-60.5	354.0	479.7
4	4298.9	2763.5	744.6	-54.2	358.7	486.3
YEAR	4241.4	2728.3	742.2	-61.8	353.4	479.4
% change from '89	2.4	2.3	2.3	2.0	3.7	2.4
1991:1	4322.3	2769.1	749.6	-47.6	362.7	488.5
2	4345.1	2781.1	752.3	-46.7	368.3	490.1
3	4370.1	2796.8	752.4	-45.1	370.4	495.6
4	4390.6	2812.1	754.0	-47.5	373.2	498.8
YEAR	4357.0	2789.8	752.1	-46.7	368.6	493.2
% change from '90	2.7	2.3	1.3	-24.5	4.3	2.9

*Historical data.
R = Revised. P = Preliminary.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1989
FORECAST
DATA

Percent Change from October 1989 Forecast	
+ .04%	Pers. Cons. Expend.
+ .02%	State Local Purch.
0.00%	Federal Govt. Purch.
- .07%	Producer Price Index
- .08%	Consumer Price Index
- .08%	GNP

THE OCTOBER CPI RISE OF .2% AND THE PPI RISE OF .4% HAVE, AGAIN, SHOWN THAT INFLATION IS WELL CONTAINED.

Excluding food and energy costs, the PPI rose by a modest .1% from September. Cooling the wholesale inflation produces good prospects for consumer prices in coming months since producers will be under less pressure to raise prices charged to consumers. The optimism on prices for the rest of this year and for 1990 is shared, NOW, by the majority of forecasters. In general, most recent forecasts of prominent forecasting agencies have shown the downward revisions of their predictions of CPI, PPI, and GNP deflator for coming months and 1990. For example, the Blue Chip indicators has revised its CPI forecast for this year and 1990 from the last month's respective 4.9% and 4.4%, to 4.6% and 4.2%. KEDI's forecast remains unchanged: it has been predicting the 4.3%-4.5% rates for this year and 4.1-4.2% rates for many months now. KEDI's long-term forecast also corresponds with the Federal Reserve expected rate of inflation of around 3% in mid-90's.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--* Cons. price index n.s.a.**	Prod. price index n.s.a.**	*-------Price deflators--------* Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1982-84 =100	1982= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1988*	118.3	108.0	121.3	124.5	115.9	128.8
1989:1*	121.7	111.7	125.1	124.5	118.9	132.9
2*	123.7	113.8	125.9	126.8	118.2	134.4
3	124.0P	114.0P	126.9P	130.4P	119.8P	135.7P
4	125.0	114.6	127.8	131.4	120.9	136.4
YEAR	123.6	113.5	126.4	128.3	119.5	134.8
% change from '88	4.5	5.1	4.2	3.0	3.1	4.7
1990:1	126.1	116.0	129.3	133.7	122.4	137.6
2	128.5	117.8	130.5	135.1	123.8	138.5
3	129.8	119.4	132.0	137.4	125.2	140.6
4	131.0	121.3	135.4	141.9	126.2	142.9
YEAR	128.8	118.6	131.8	137.0	124.4	139.9
% change from '89	4.2	4.5	4.3	6.8	4.1	3.7
1991:1	132.5	122.7	136.2	143.2	127.1	143.4
2	133.7	124.3	137.0	140.6	129.2	144.8
3	135.2	125.3	138.8	146.3	130.4	146.2
4	136.9	126.0	140.0	147.4	131.0	148.7
YEAR	134.6	124.6	138.0	144.4	129.4	145.8
% change from '90	4.4	5.0	4.7	5.4	4.0	4.2

*Historical data. R = Revised. P = Preliminary.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1989
FORECAST
DATA

Percent Change from October 1989 Forecast	
+ 1.28%	Net Exports
+ .08%	Gross Private Dom. Inv.
+ .03%	State Local Purch
+ .01%	Federal Govt. Purch.
- .07%	GNP
- .10%	Pers. Cons. Expend.

THOUGH THE SEPTEMBER TRADE DEFICIT FELL SHARPLY WHEN COMPARED TO THE AUGUST GAP, FORECAST DATA FOR THE FOURTH QUARTER OF THIS YEAR AND FOR 1990 DO NOT INDICATE A CONTINUATION OF RAPID DECREASES.

Data on net exports in 1990 point to very slow declines mainly due to slowing down in the growth of U.S. exports and stable level of imports throughout the year since the expected declines of imports on consumer products are likely to be compensated by increasing imports of crude materials and oil.

Compared to the previous forecast, data for Gross Private Domestic investment in both forecast years have been revised upwards mainly due to expected increases in manufacturing inventories and better-than-previously forecasted outcomes of the residential construction segment.

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1988*	4880.6	3235.1	750.3	-73.7	381.3	587.6
1989:1*	5113.1	3381.4	769.6	-54.0	399.0	617.0
2*	5201.7	3444.1	775.0	-50.6	406.0	627.2
3	5278.9P	3515.2P	779.2P	-53.5P	403.3P	636.8P
4	5320.3	3523.7	797.2	-64.3	420.0	643.7
YEAR	5228.5	3466.1	780.2	-55.6	407.1	631.2
% change from '88	7.1	7.1	4.0	-24.6	6.8	7.4
1990:1	5410.3	3593.8	799.2	-61.1	426.7	651.7
2	5515.8	3678.4	798.4	-59.0	435.9	662.2
3	5617.5	3761.9	796.2	-58.2	443.2	674.5
4	5820.7	3921.6	803.8	-52.3	452.7	694.9
YEAR	5591.1	3738.9	799.4	-57.6	439.6	670.8
% change from '89	6.9	7.9	2.5	3.7	8.0	6.3
1991:1	5887.0	3965.3	806.9	-46.7	461.0	700.5
2	5952.8	3911.3	807.5	48.5	475.8	709.7
3	6065.7	4090.3	810.7	-42.9	483.0	724.6
4	6146.8	4144.3	813.6	-41.7	488.9	741.7
YEAR	6013.1	4027.8	809.7	-20.7	477.2	719.1
% change from '90	7.5	7.7	1.3	-64.1	8.5	7.2

*Historical data. R = Revised. P = Preliminary.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1989
FORECAST
DATA

Percent Change from October 1989 Forecast	
+ .19%	Unemployment
+ .01%	Population
+ .01%	Total Employed
+ .01%	Non Agriculture
0.00%	Agriculture
- .04%	Civilian Labor Force

OCTOBER UNEMPLOYMENT RATE STOOD AT THE SAME LEVEL AS IN SEPTEMBER INDICATING THAT CONTINUOUS STRONG DEMAND FOR LABOR IN MONTHS AHEAD.

Data for 1989:4 point to a slight increase in the rate mainly due to the expected slowing down in hiring new labor by state and local governments and larger, though temporary, layoffs in the automotive segment.

The outlook for 1990-1991 labor market remains positive. While in the goods producing industries in manufacturing, the demand for new labor in 1990 will increase only marginally and will pertain largely to the skilled labor, the construction and utilities segments are expected to be more active in new job offerings. The major demander, as in previous years, is expected to remain the services segment, notably eductional, health, communications, transportation, and fast food services.

The outlook for 1991 is more bright mainly due to the expected renewal of upward trend in job offerings in manufacturing segments.

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------* Total	Agri-cult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1988*	249.8	121.7	115.2	3.2	113.6	5.50
1989:1*	253.9	123.3	116.9	3.2	113.6	5.17
2*	254.3	123.8	117.3	3.2	114.1	5.27
3	255.1	124.6P	118.0P	3.2	114.8	5.32
4	256.0	125.7	115.9	3.2	112.6	5.36
YEAR	254.8	124.3	117.7	3.2	114.5	5.28
% change from '88	2.0	2.2	2.1	0.0	.8	-4.00
1990:1	257.4	126.1	119.4	3.2	116.2	5.32
2	258.9	127.1	120.3	3.2	117.1	5.34
3	260.2	128.2	121.4	3.2	118.2	5.33
4	261.8	128.8	121.9	3.2	118.7	5.32
YEAR	259.6	127.5	120.8	3.2	117.6	5.33
% change from '89	1.9	2.6	2.6	0.0	2.7	.90
1991:1	262.4	129.4	122.6	3.2	119.4	5.28
2	263.5	130.1	123.3	3.2	120.1	5.22
3	265.1	131.5	124.7	3.2	121.5	5.20
4	266.4	132.4	125.4	3.2	122.2	5.26
YEAR	264.4	130.8	124.0	3.2	120.8	5.24
% change from '90	1.8	2.6	2.6	0.0	2.8	-1.64

*Historical data. R = Revised. P = Preliminary.

1.41 HOUSING

See Table 1.41 - Page 17

1989
FORECAST
DATA

Percent Change from October 1989 Forecast	
+ .46%	Permits Issued
+ .21%	1-Family unit price existing
+ .11%	Mobile Home Shipments
- .30%	1-Family unit price new
- 1.55%	Multiple Family Housing Starts
- 3.03%	Single Family Housing Starts

IN OCTOBER, HOUSING STARTS BOUNCED BACK BY 12% FROM THE SEPTEMBER'S LOW INDICATING, AGAIN, THAT THE BOTTOM OF THE HOUSING MARKET IS OVER.

Forecast data point to a stable market through the first quarter of 1990 with resumption of a stronger upward trend in the middle of the year. Data indicate that housing industry is getting in better shape:

* While in March of this year the inventories of single-family houses swelled to an 8.1 month supply, in October they dropped to a 6 month supply--a below average figure.

* Mortgage rates (30 year fixed-rate) have fallen from the 11.2% in March to 9.8% to the end of October (with a temporary September blip upwards) and it is generally agreed among economists that in coming months the rate will decline by approximately another half percent. KEDI forecast of housing conditions in 1990 calls for single-family housing starts up by approximately 4% and apartments by 7% more than this year.

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home ship-ments mil.	Permits author-ized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1988*	1.081	.407	.218	1.456	139.0	112.5
1989:1*	1.070	.448	.217	1.373	144.0	115.6
2*	.994	.389	.219	1.319	146.7	116.5
3	1.011P	.361P	.227P	1.307R	150.2	121.3
4	1.122	.389	.210	1.221	155.7	122.8
YEAR	1.049	.397	.218	1.305	149.1	119.0
% change from '88	-2.9	-2.5	.1	-10.4	7.3	5.8
1990:1	1.016	.304	.203	1.332	156.4	124.7
2	1.114	.406	.227	1.501	159.2	128.9
3	1.145	.431	.240	1.497	163.3	129.2
4	1.167	.418	.227	1.526	164.5	132.3
YEAR	1.111	.390	.224	1.464	160.8	128.8
% change from '89	5.8	-1.8	2.7	12.2	7.8	8.2
1991:1	1.123	.415	.220	1.524	168.9	134.5
2	1.248	.450	.238	1.613	170.1	136.0
3	1.307	.462	.242	1.694	175.3	138.7
4	1.260	.431	.249	1.601	177.2	141.3
YEAR	1.234	.440	.237	1.608	172.9	137.6
% change from '90	11.2	12.8	5.8	9.8	7.5	6.9

*Historical data. R = Revised. P = Preliminary.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1989
FORECAST
DATA

Percent Change from October 1989 Forecast	
0.00%	Shipments
0.00%	Imported Car Sales
0.00%	Dealer Inventory
- .71%	Total Car Sales
- 1.33%	Domestic Car Sales
- 2.27%	Total Light Truck Sales

EARLY NOVEMBER SALES OF DOMESTICALLY PRODUCED CARS PLUNGED 23.1% INDICATING THAT THE NEXT 3-4 MONTHS IN DETROIT ARE GOING TO BE TOUGH.

Current gloomy analyses of some economists on a "full-blown automotive recession" are not shared here, however. The slow October and November sales are constituting to a large extent the paybacks for the aggressive discounts and other rebates offered in the Fall, and, typically, a period of strong sales spurred by discounting is followed by a period of unusually weak sales, after when the trend returns to roughly the same level it was before discounting.

KEDI forecast of the first quarter of 1990 car sales calls for a small, 3% decline when compared to sales in 1989:1, but a more significant 10% decline in production and factory shipments in that quarter. For the second quarter of 1990 and afterward, forecast data of sales and shipments indicate the return to the 1989 levels.

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1988*	10.6	7.5	3.1	1.6	7.6	4.3
1989:1*	9.9	6.9	2.9	1.8	7.6	4.1
2*	10.3	7.3	3.0	1.8	7.4	4.4
3	11.0	7.9	3.1	1.9	7.7	4.6
4	10.4	7.4	3.0	1.8	7.3	4.1
YEAR	10.4	7.4	3.0	1.8	7.5	4.3
% change from '88	-1.9	-1.7	-3.2	12.5	-1.3	0.0
1990:1	10.2	7.2	3.0	1.7	7.1	4.3
2	10.4	7.3	3.1	1.8	7.4	4.4
3	10.9	7.7	3.2	1.8	7.9	4.9
4	10.9	7.9	3.0	1.8	7.5	4.7
YEAR	10.6	7.5	3.1	1.8	7.5	4.6
% change from '89	1.9	-.6	2.5	0.0	-.3	6.4
1991:1	10.8	7.8	3.0	1.8	7.6	4.6
2	10.9	7.8	3.1	1.7	7.7	4.8
3	11.2	8.3	2.9	1.7	7.9	4.7
4	10.8	7.9	2.9	1.8	7.8	4.8
YEAR	10.9	8.0	3.0	1.8	7.8	4.7
% change from '90	3.1	6.3	-3.3	0.0	3.7	3.3

*Historical data. R = Revised. P = Preliminary.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1989
FORECAST
DATA

Percent Change from October 1989 Forecast	
+ 1.72%	Federal Surplus Deficit
- .03%	State Income Tax
- .04%	Federal Income Tax
- .34%	State Surplus Deficit
- .64%	State Local Corp. Tax Accrued
- 2.07%	Corporate Profit Tax Accrued

IN THIS FORECAST, DATA OF FEDERAL BUDGET DEFICIT HAS NOT BEEN AFFECTED BY THE POTENTIAL EFFECTS OF PROVISIONS OF THE GRAMM-RUDMAN-HOLLINGS ACT WHICH CALL FOR THE ACROSS-THE-BOARD CUTS IN THIS FISCAL YEAR FEDERAL BUDGET.

It is anticipated that Congress and the Administration will come to an agreement which will comply with the Gramm-Rudman-Hollings Act. Therefore, the $110 bil. deficit for this fiscal year has been retained in this forecast.

Compared to the October data, forecast data in the Federal and State and Local segments for corporate profitsst tax accruals have been revised slightly downward due to the downward revision of the expected corporate profits in the rest of this year and in 1990.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----FEDERAL----------*			*---STATE AND LOCAL----*		
	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1988*	413.0	111.4	-145.8	173.7	26.5	49.7
1989:1*	446.8	117.0	-147.5	181.5	32.1	48.8
2*	464.7P	120.2P	-145.4P	187.6P	33.5P	47.5P
3	460.7P	122.4P	-142.3P	190.8P	37.0P	52.6P
4	470.4	123.0	-138.1	198.7	38.1	54.0
YEAR	460.6	120.7	-143.3	189.7	35.2	50.7
% change from '88	11.5	8.3	-1.7	9.2	32.7	2.1
1990:1	487.3	130.6	-126.2	205.1	39.7	55.1
2	494.1	134.1	-122.8	209.3	40.0	56.7
3	506.2	138.2	-102.6	213.9	41.7	58.0
4	513.4	141.5	-101.3	215.3	42.3	60.2
YEAR	500.2	136.1	-113.2	210.9	40.9	57.5
% change from '89	8.6	12.8	-21.0	11.2	16.3	13.4
1991:1	522.1	144.0	-91.4	220.6	45.0	62.8
2	527.4	145.2	-89.2	225.1	46.1	64.0
3	533.9	149.1	-84.8	230.1	46.9	64.9
4	541.6	150.1	-73.5	236.6	47.7	65.8
YEAR	531.2	147.1	-84.7	228.1	46.4	64.4
% change from '90	6.2	8.1	-25.2	8.2	13.4	12.0

*Historical data. R = Revised. P = Preliminary.

1.60 INCOME

See Table 1.60 - page 23

1989
FORECAST
DATA

Percent Change from October 1989 Forecast	
+ .24%	Personal Savings
0.00%	Corporate After Tax Profit
- .02%	Average Weekly Earnings
- .07%	Personal Income
- .08%	Personal Disp. Income
- .12%	Comp. of Employees

FORECAST OF CORPORATE AFTER TAX PROFITS SHOWS A CONTINUOUSLY SLUGGISH GROWTH FOR THE REST OF THIS YEAR UP TO THE FIRST HALF OF 1990 AND IMPROVEMENTS AFTERWARD.

Detailed forecast data point to weaknesses in the automobile, saving and loan, oil extraction, textile, and some segments of primary metals and electrical machinery industries that are expected to affect the aggregate data on earnings and profits.

On the contrary, forecast for Personal Income and Components is optimistic for both forecast years. Data show regular quarter-to-quarter increments without any significant deviation from the upward trend for the 1990-1991 period.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1988*	4064.5	3477.8	2904.9	168.9	144.7	417.7
1989:1*	4317.8	3689.5	3060.9	173.6	205.7	426.3
2*	4400.3	3747.0	3104.9	161.1	200.7	426.8
3	4457.5P	3808.4P	3189.6P	163.1P	191.1P	433.0
4	4560.3	3891.2	3262.1	175.9	207.5	438.4
YEAR	4409.1	3758.5	3154.4	168.4	201.2	431.1
% change from '88	10.8	10.8	8.6	-.3	39.1	3.2
1990:1	4654.0	3961.6	3352.2	180.3	209.3	440.8
2	4750.3	4046.9	3401.1	186.3	207.2	445.3
3	4846.7	4126.6	3500.2	188.2	201.2	451.7
4	5017.4	4288.7	3611.8	193.4	200.7	457.3
YEAR	4817.1	4105.9	3466.3	187.1	204.6	448.8
% change from '89	9.6	9.7	9.9	11.1	1.7	4.1
1991:1	5088.3	4345.6	2700.9	198.2	211.4	459.6
2	5048.7	4296.2	3798.3	201.3	213.4	463.8
3	5244.4	4480.4	3456.4	207.6	216.7	465.4
4	5316.7	4538.5	3928.9	210.1	217.5	470.9
YEAR	5174.5	4415.2	3471.1	204.3	214.8	464.9
% change from '90	7.4	7.5	.1	9.2	5.0	3.6

*Historical data. R = Revised. P = Preliminary.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1989
FORECAST
DATA

Percent Change from October 1989 Forecast	
+ .07%	Time Deposits
+ .05%	Comm. & Indust. Loans at Banks
- .03%	Consumer & Demand Deposits
- .24%	Mortg. at Savings Inst'ns
- 1.39%	Consumer Install. Credit
- 3.11%	Large Denom. Time Deposits

FORECAST DATA FOR GROWTH OF MONETARY AGGREGATES CALL FOR MODEST INCREASES IN M1 AND M2 IN BOTH FORECAST YEARS, COMMENSURATE WITH THE MODERATE GROWTH OF THE ECONOMY.

Data for consumer installment credit for 1990 point to a continuous strength albeit not as vigorous as experienced in 1988 and in most of this year. The consumer credit market is expected to expand more rapidly not earlier than from the second quarter of 1990 mainly due to the renewed demand for automotive products. Forecast of mortgage markets indicates a continuous moderate expansion that corresponds to the improved performance of the housing construction segment of the economy.

Demand of businesses for commercial and industrial loans is expected to slow down a bit during the next year. A more vigorous expansion is expected not earlier than in 1991.

Data for the stock and bonds markets point to marginal improvements in 1990, with a brighter outlook for the following year.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at all holders ** n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1988*	776.7	3009.5	667.3	558.1	512.4	3172.2
1989:1*	786.7	3071.2	682.4	560.1	558.9	3207.2
2*	775.7	3080.2	700.8	562.9	573.0	3231.5 R
3	778.8 P	3136.7	706.6 R	563.6	563.2	3290.2
4	785.1	3188.6	711.2	565.8	572.8	3322.1
YEAR	781.6	3119.2	711.2	565.8	572.8	3322.1
% change from '88	.6	3.6	6.6	5.3	11.8	4.7
1990:1	791.3	3245.7	716.9	570.9	587.5	6407.8
2	795.7	3309.8	727.5	575.3	600.2	3482.4
3	802.3	3357.2	742.6	579.7	621.8	3551.5
4	810.1	3421.5	762.1	583.6	636.0	3602.2
YEAR	799.9	3333.6	762.1	583.6	636.0	3602.2
% change from '89	2.3	6.9	7.2	3.1	11.0	8.4
1991:1	816.5	3476.3	773.2	586.9	651.6	3651.6
2	820.7	3561.4	788.7	586.8	670.3	3695.4
3	830.4	3634.2	796.3	587.4	680.5	3740.3
4	839.7	3711.5	816.1	585.3	682.3	3778.2
YEAR	826.8	3595.8	816.1	595.3	682.3	3778.2
% change from '90	3.4	7.9	7.1	2.0	7.3	4.9

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates.
R = Revised. P = Preliminary.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1989
FORECAST
DATA

Percent Change from October 1989 Forecast	
+ .48%	Conv. Mortg. Rate
+ .09%	S & P's 500 Avg.
- .21%	Aaa Corp. Bonds
- .48%	Treas. Bills 2 mo. yield
- 1.20%	Prime Rate
- 1.29%	20 Year Govt. Bond Yield

SINCE THE END OF SEPTEMBER, THE FEDERAL FUNDS RATE IS DOWN BY ABOUT HALF A PERCENTAGE POINT.

KEDI anticipates that it will decline a notch further to the end of this year, and will continue declining in very small amounts throughout the next year. Forecast data indicate that the gradual reductions in the Federal funds rate and other related short-term rates administered by the Federal Reserve will affect the other more rigid rates, expecially the prime rate not earlier than late in the first quarter of 1990. However, the declines in interest rates levels in general are not expected to be profound.

It is anticipated that (1) checking the inflation will remain the Fed's primary concern in years ahead, and (2) the inflation rate in mid 90's will stay at approximately 3% levels. It means that currently, and in the future, Federal Reserve will not be able to push interest rates down too much to avoid to reignite inflation. It would need to hold the economy on current moderate pace of growth.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	30 yr. Govt. bonds yield	S & P's 500 Avg 1941-43 = 10
Unit	%	%	%	%	%	
Year & Qtr.						
1988*	6.68	9.39	8.81	9.71	8.96	265.72
1989:1*	8.53	10.98	9.43	9.67	9.04	290.72
2*	8.44	10.86	9.75	9.49	8.71	313.30
3	8.01 P	10.50 P	9.42 P	9.40 P	8.21 P	329.60 P
4	7.86	10.50	9.30	9.32	7.72	336.87
YEAR	8.21	10.71	9.47	9.47	8.42	317.62
% change from '88	22.9	14.1	7.5	-2.5	-6.0	19.5
1990:1	7.71	10.39	9.23	9.40	7.80	339.85
2	7.63	10.21	9.18	9.67	8.01	340.78
3	7.41	10.15	8.82	9.98	7.84	342.52
4	7.20	10.04	8.79	10.01	7.67	339.10
YEAR	7.49	10.20	9.00	9.77	7.83	340.56
% change from '89	-8.8	-4.8	-5.0	3.1	-7.0	7.2
1991:1	7.28	9.98	9.16	9.91	7.72	347.52
2	7.36	9.90	9.27	9.98	7.84	348.62
3	7.46	9.96	9.35	10.01	7.78	355.57
4	7.50	10.04	9.62	10.06	7.65	363.24
YEAR	7.40	9.97	9.35	9.99	7.75	353.74
% change from '90	-1.2	-2.2	3.8	2.3	-1.1	3.9

*Historical data. R = Revised. P = Preliminary.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue the Housing Starts in 1988:4 has been selected for comparison. Forecast data are in the Journal of Business Forecasting Methods & Systems, Vol. 6, Number 3, Winter 1987-88 issue, pp. 37-42. Actual figure is in the Survey of Current Business (U.S. Dept. of Commerce, monthly), Vol. 69, No. 8, blue pages.

TABLE 2.0

COMPARISONS OF ACCURACY OF PREDICTIONS
Housing Starts, 1988:4
(mil. units)
Actual figure: 1.6

Forecaster	Date of Forecast	Forecast	Accuracy %
Fidelity Bank, Philadelphia	12/87	1.6	.0
First National Bank of Chicago, Chicago	12/87	1.5	- 6.3
First Interstate Bancorp.	12/87	1.5	- 6.3
Marine Midland Bank, New York	12/87	1.3	-18.7
National City Bank, Ohio	12/87	1.6	.0
Manufacturers Hanover Trust	12/87	1.3	-18.7
Metropolitan Life Ins. Co.	12/87	1.4	-12.5
KEDI, Inc., Kent	12/87	1.7	+ 6.3
LaSalle National Bank, Chicago	12/87	1.4	-12.5
Irving Trust	12/87	1.4	-12.5
John Hancock	12/87	1.5	- 6.3
Core Financial	12/87	1.5	- 6.3
Harris Trust	12/87	1.8	+12.5
Wells Fargo	12/87	1.6	.0
Morgan Stanley	12/87	1.5	- 6.3
Shearson Lehman	12/87	1.6	.0

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin**, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production**, G.87.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.87 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.87 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36